

Key Issues Brief

2.02 Norfolk Island Air Services – Passenger and Freight

Key Issues

Airline Underwriting—Passenger

- The Australian Government has provided approximately \$10 million for airline underwriting flights between the mainland and Norfolk Island since 2011.
- Air New Zealand (Air NZ) has been providing regular air services between Australia and Norfolk Island under a contract arrangement since 2012, and will continue to do so until at least 2021. Contracting a large commercial airline has boosted Norfolk Island tourism activity and provided greater economic opportunities for the community.
- The contract requires Air NZ to operate the service as commercially as possible, to avoid discouraging competition, while ensuring there is sufficient capacity to increase tourism numbers and allow residents to access mainland services.
- The agreed flight schedule is seasonal and based around historical travel numbers to Norfolk Island. The ‘core service’ provides two flights from Sydney and two flights from Brisbane each week. Currently, the Brisbane service reduces to weekly during the July and August, while the Sydney services increases to three flights per week, from September to April.
- You recently announced that the airline services will be expanded to provide year-round, twice-weekly return flights between Brisbane and Norfolk Island from mid-2019.
- NIRC or business stakeholders may request you amend the contract to provide three flights per week from Sydney and to provide a third flight from Brisbane during the peak and shoulder period from September through to April. You may wish to indicate that these additional flights are being considered, noting that the costs are not insignificant and that the current budget for the airline underwrite would need to be increased.
- You may like to advise that scheduling flights at times of the year that are unlikely to be well patronised increases the Australian Government’s underwriting costs and diverts resources from other services provided to the community.
- Air NZ has a Marketing Memorandum of Understanding (the MOU) with NIRC to develop the local tourism industry. The MOU helps to co-ordinate Air NZ’s promotion of the route with Norfolk Island tourism destination marketing and advertising; including the promotion of events and discounted seats to attract more tourists.
- The former Norfolk Island Government’s 2008 contract with Air Nauru to provide a similar, non-seasonal, service (with only two flights per week from Sydney) resulted in underwriting losses of around \$7.5 million per year.

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- In March 2018, the Administrator held a reception at Government House for representatives from Air Chathams and the Norfolk Island tourism sector to support NIRC's work to secure a regular air service between New Zealand and Norfolk Island. Air Chathams in partnership with Pukekohe Travel is advertising three week-long package deals direct from New Zealand to Norfolk Island. 2018 travel dates are:
 - 25 October – 1 November
 - 1 November – 8 November
 - 8 November – 15 November.
- The Department understands that NIRC is negotiating with Air Chathams to secure a regular passenger transport service between New Zealand and Norfolk Island.

Freight Issues

- Every Air NZ flight from Australia to Norfolk Island carries freight, at a price which is much lower than the true cost of the service. This service has typically provided adequate air freight capacity for Norfolk Island's needs for much of the year.
- Backlogs occur seasonally due to high passenger demand, when passenger numbers are high or when the regular passenger service must load additional fuel due to adverse weather conditions.
- Recently, the larger of the two ships that transported freight to Norfolk Island was taken out of service. The smaller ship continues to travel to the Island, but overall sea freight capacity has reduced substantially. This has transferred demand to air freight.
- The Department has occasionally procured freight services to alleviate backlogs as required, including in late 2017 and early 2018. To support the community, the Department is underwriting an ad-hoc freight flight in November 2018.
- The lack of exports from Norfolk Island has historically increased freight costs as pricing for all imports needs to consider the cost of a return trip for an empty aircraft. This situation is changing, given that NIRC now need to export waste to the mainland for proper disposal. Previously, waste was dumped into the ocean, however this practice is no longer allowed, due to the establishment of the Norfolk Island Commonwealth Marine Reserve around the Island.
- A freight working group established by the Administrator of Norfolk Island provided a draft air freight subsidy proposal to the Department in mid-October 2018 (**Attachment A**).
 - This proposal seeks to establish a regular air freight service from the mainland to Norfolk Island.
 - Under the proposal, importers would be charged a commercial rate for goods, and the Government would subsidise NIRC's costs of waste export to the mainland.

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- The proposal presents two subsidy scenarios with costs of either \$360,000 or \$780,000 per annum, depending on the frequency of flights. These amounts are not able to be funded from within the current budgets.
- The proposal should be discussed with caution as initial analysis by the Department indicates that there are some areas of concern.
- The Department's analysis will consider, among other factors, the Financial Assistance Grant payment to NIRC. This payment contains additional supporting payments for freight and for waste management which seek to account for the remote island disadvantages experienced by NIRC.
- The Department may ask you to consider making a Budget submission to seek additional funds to support this subsidy, pending the outcomes of the analysis.

Background

- The Norfolk Island Government contracted Air Nauru to provide air services between the Australian mainland and Norfolk Island from 2005 to 2012. The Global Financial Crisis in 2008-09 dramatically reduced global tourism numbers and highlighted the short comings in the Norfolk Island Government's contract. As a result of reduced passenger numbers and a poor contract the Norfolk Island Government sustained losses of up to \$7.5 million/year operating the air service.
- The Australian Government provided \$11.2 million in 2011 to terminate the expensive contract with Air Nauru and attract a new, reliable air service provider to Norfolk Island. The decision to underwrite an air service to Norfolk Island was part of the Australian Government's strategy to improve the Island's economic sustainability.
- Air NZ commenced providing an air service, underwritten by the Australian Government, in March 2012 and was again awarded the contract in 2016 following a competitive tender process.
- Norfolk Island experienced its worst recorded visitor numbers in 2012 which coincided with the commencement of the contract with Air NZ. Passenger numbers have increased year-on-year since 2012, with a slight drop experienced in 2017-18 compared to the previous year.

Attachments:

- A Draft Air Freight Subsidy Proposal

